JAN. 15
1992

INDUSTRIAL DISTRIBUTION

THE MANAGEMENT AND SALES MAGAZINE FOR DISTRIBUTORS

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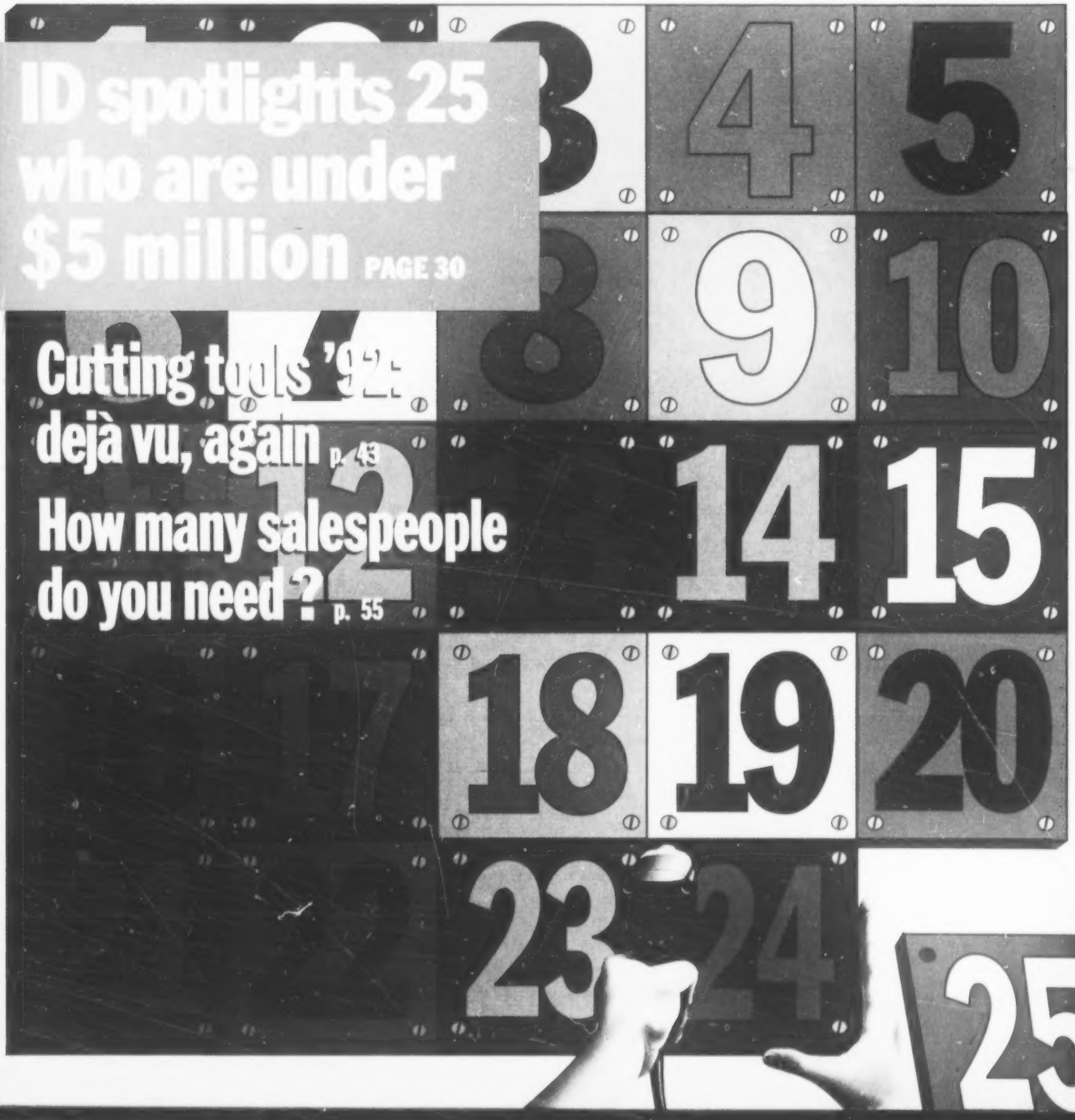
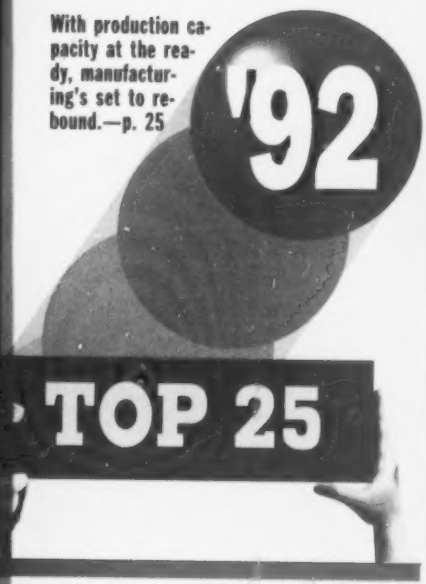
ID spotlights 25 who are under $5 million PAGE 30

Cutting tools '92: deja vu, again p. 43

How many salespeople do you need? p. 55



With production capacity at the ready, manufacturing's set to rebound.—p. 25



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For 50 years Kelly Supply and Gates Rubber have practiced profitable partnering.—p. 49

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Manufacturing will be the first to rebound in '92

The expansion will be modest due to weaker consumer and government spending, yet most sectors will recoup their losses from the recession.

By Susan Farris, Contributing Editor

This year will mark the beginning of the next economic expansion. The start of 1992 promises to be slow-paced and sluggish, with many economic indicators expected to remain relatively flat over the first few months. By the end of the year many sectors will begin to experience growth again, after last year's decline.

Most sectors should at least recover 1991's losses, with some sectors, such as computers, electrical and non-electrical machinery, coming out ahead. Manufacturing will be one of the first sectors to rebound in the early phases of the economic expansion. At this stage, neither consumers nor government have the requisite spending power to add further momentum to the recovery.

As a result, the forecast is for GNP to grow by just 2.6% in 1992 and 3.0% in 1993. This compares to historical growth rates during an average expansion of between 6 and 8%. Industrial production will expand 3.9% in 1992 and an additional 4.0% in 1993.

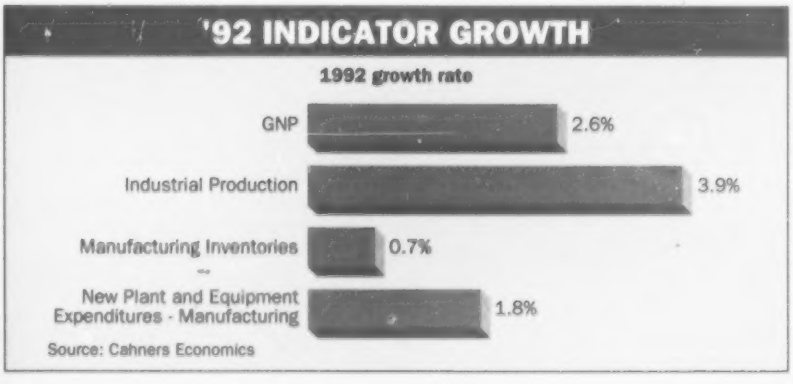
What will drive the recovery?

Inventories pared during the recession have declined ever since. But businesses are hesitant about reacting to the positive economic signals just yet. Bar coding and JIT arrangements allow businesses to hold lower inventory levels. Inventories will grow by only 0.7% this year.

One reason manufacturing has recovered so early is that operating rates are running higher than is usual at the beginning of an expansion. Manufacturing operating rates are expected to exceed 80% by mid-year. Plant and equipment spending will increase sooner as businesses find they need to meet growing demand. Spending on plant and equipment for the manufacturing industry will rise by 1.8% for 1992, after last year's 2.3% decline.

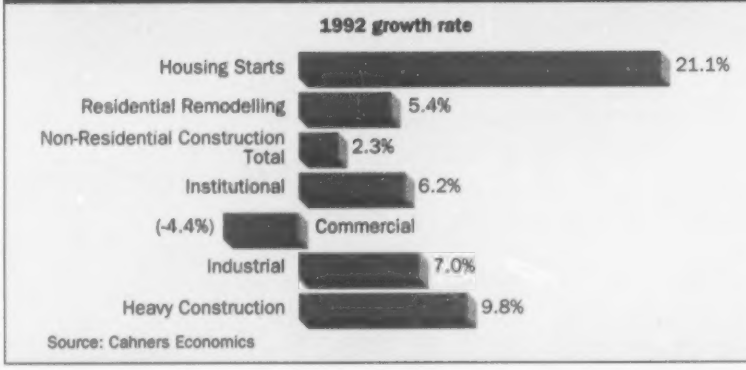
In addition to capacity expansion, many plants and factories will undergo rehabilitation. By 1993, manufacturing capital spending will surge by 7.7%. The original equipment manufacturers (OEM) sector, in particular, should benefit from this increased spending.

Capital spending will be encouraged by the favorable investment environment. Mild inflation is expected to continue for the next two years: The producer price index is forecast to rise a modest 2.8% in 1992, while consumers will see price inflation hover around 4% through 1993.



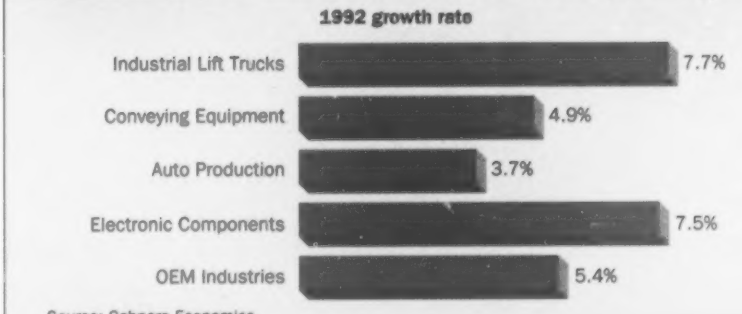
Rebound

CONSTRUCTION OUTLOOK



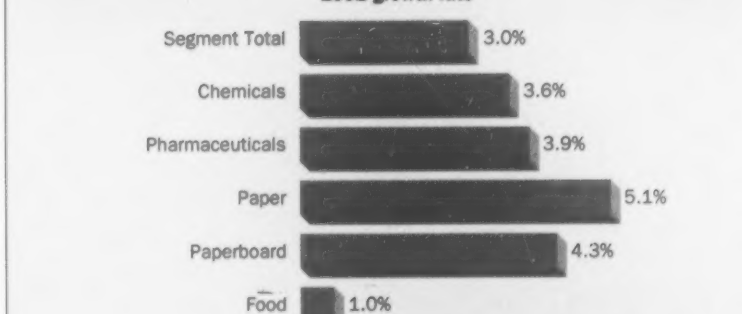
Source: Cahners Economics

MANUFACTURING FORECAST



Source: Cahners Economics

PROCESS INDUSTRY GROWTH



Source: Cahners Economics

The housing market recovers slowly and unevenly. While housing starts inch forward, several months of decline occurred for both new and existing home sales. Homeowners turned to refurbishing existing property.

After growing 1.4% last year, residential remodeling will rise 5.4% in 1992. Total housing starts should exceed 1.2 million for the year, with most growth in the latter half. Although this will be 21.1% higher than the dismal level of 1991 starts, it is roughly equal to the number of homes built in 1980.

Growth in new home construction has been concentrated primarily in the West, with the weakest markets in the Northeast. Although the Pacific region has seen healthy levels of construction activity, the pace is slower than 1990 activity. Lower interest rates may help the residential building market avoid a slump in '92.

Non-residential construction is expected to rise 2.3% in 1992 after falling 6.9% last year. The institutional group will provide much of the strength, since it is the only component of non-residential construction to experience growth last year. Institutional construction spending, which includes hospitals, schools and government buildings, will increase by 6.2% this year. Expect commercial construction to fall 4.4% in 1992, due to overbuilding and slow employment growth. Spending on industrial buildings will grow 7.0%.

Heavy construction spending will expand by 9.8% this year over 1991 levels. Spending on sewers, conservation and development, and residential site preparation will all grow by more than 10% this year. Highway and street and utilities and other private construction, which account for more than half of total heavy construction, will each rise by 8.8% this year.

Recoveries in housing and capital spending will increase demand for structural metal products. The machine tools industry will see more moderate growth this year after the volatile '87 to '89 period. Nevertheless, demand for machine tools will rise short-term.

All manufacturing industries will expand their pollution equipment spending this year, with auto makers in particular investing in new equipment to comply with higher fuel economy legislation. The planned North American free-trade agreement will result in a greater number of re-tooling orders from American companies building plants in the south.

Signs are good for a rebound

Plummeting sales of mobile hydraulics last year caused an overall decline in the fluid power industry. Weak end markets such as farming and highway machinery, mining, and autos all contributed to the decline. Higher institutional construction spending this year will drive industrial hydraulics output.

Pneumatics, about 25% of the total, will grow briskly in the first half of 1992. Exports will continue to pro-

Rebound

vide strength for the fluid power industry, but to a lesser extent than in the past due to higher imports. Look to 1993 for the highest growth rate for both hydraulics and pneumatics in this recovery.

Auto production, which started declining last May, will turn around by mid-1992. Production is forecast to end the year some 3.7% higher than 1991 levels, which translates to almost 200,000 more units. With forecasters predicting growth in consumer spending of 2.0% for 1992, expect 1992 auto production to rise 3.7%. In 1993, production will drift up by 1.4%, to 5.6 million units.

The electronics industry will not recover as strongly as it has during past expansions. Part of this is because the recent electronics slowdown was much milder than the last downturn in 1986. Expect shipments of electronic components to rise by 7.5% in 1992. With many end markets showing improvements, electronic components producers can look forward to 2.9% growth in 1993.

The OEM sector will perform slightly better than the process industries, with 5.4 and 2.4% growth forecast for 1992 and 1993. The outlook for the process industries is for production to increase by 3.0% this year, due in part to growing demand from the OEM markets for materials such as chemicals, steel and plastics.

The chemicals sector will make a brisk recovery over the next two years. Production will increase by

Major capital spending plans were deferred during the recession, creating pent-up demand for heavy capital goods.

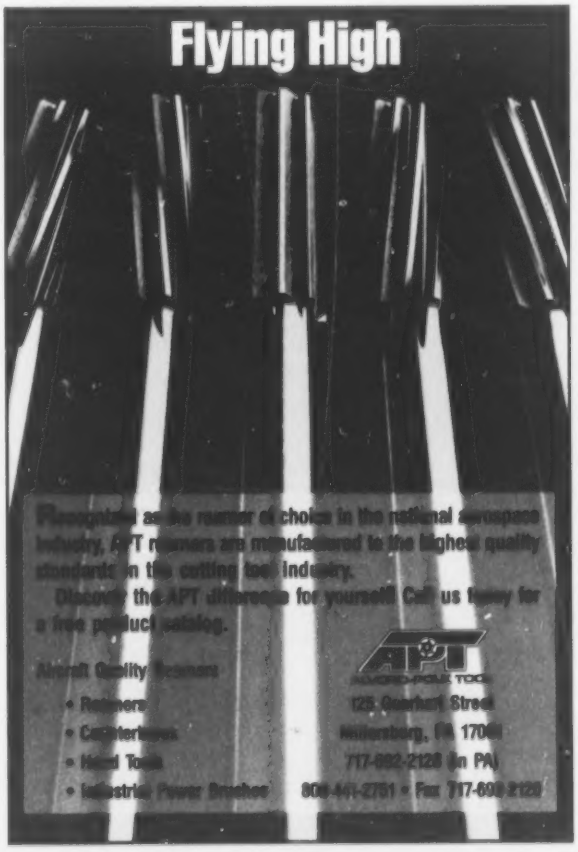
3.6% this year, trimming leadtimes to 2.7 weeks in the first half of 1992. With inflation under control and few supply pressures, chemical prices in 1992 will remain even.

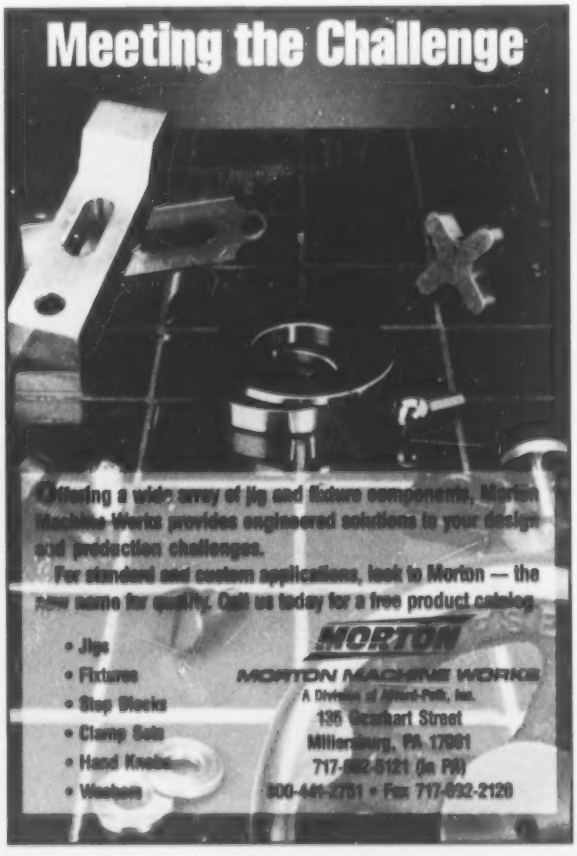
With improvements foreseen in many end markets such as autos, appliances and heavy construction, expect demand for steel to start recovering early in the year. Steel production is forecast to expand by 6.2% this year. Domestic consumption of steel mill products is defined as total production plus imports minus exports. As the U.S. dollar strengthens and foreign economies weaken, expect net imports of steel to be higher. As a result, consumption will grow faster than domestic production, rising 7.3% in 1992.

What's in store for '92

With most end markets expected to improve this year, distributors can look forward to a busier '92. The electronics market, including computers, communications equipment and components, promises to be strong.

Both electrical and non-electrical machinery will post robust gains over the next few years, making up for their moderate losses in 1991. Chemicals and plastics will be the healthier sectors of the process industries. As for the weaker sectors: Construction spending will grow slowly this year, with commercial building expenditures forecast to fall. Although the outlook calls for transportation output to expand, it will not rise enough to recoup last year's decline. Expect the upcoming expansion to also be moderate. ID





TOP 25 SMALL DISTRIBUTORS

by Christine Forbes, Associate Editor

Meet 25 of the biggest and best "little guys" in the business.

A manufacturer we met at a recent convention said it best: "The small distributor never gets any recognition. In many cases, the small houses are the best at what they do. However, because they are so small, they fade into the background."

Well—those days are over. With the first annual Top 25 Small Distributors—we are giving the little guy the attention he deserves.

Through a questionnaire in the October issue, distributors with annual sales of $5 million or less were invited to nominate themselves. We were flooded with responses to our questionnaire. It seems we were right about our perceptions of the recognition factor among the smaller houses. We received comments like, "Thank you for the opportunity!" And, "Well, it's about time someone gave us a chance!"

One distributor noted that the space allotted was insufficient to "impart the feeling of pride" he had for his business. Many of you feel the same way. And, your pride is reflected in the job you do for your manufacturer counterparts as well as your customers. Because of this commitment, our job was very difficult. At ID, we were challenged with the choice: Which distributors shine brightest?

Answering that question was even more formidable than it sounds. After all, the myriad variables which reflect performance levels among distributors are somewhat intangible. Understanding this, we asked questions which could prompt concrete responses from distributors—thus making numerical tabulation possible for each company. Such questions as gross margin and average inventory turns provided candid insights into the business practices and priorities of each distributor.

All responses, shared by the distributors and verified by our staff, were input and calculated according to a custom-designed computer formula. (Several distributor nominations were disqualified due to inadequate responses.)

As for those of you who didn't meet the criteria for our Top 25 because your sales volume was too high—all we can say is, maybe next year. We got so many inquiries from distributors who fell through the cracks that we feel compelled to run a feature just for those who are building their reputations as medium-sized houses. As one respondent noted enthusiastically, "We have egos too!"

Well, that's clearly a story for another time. For now—we bring you ID's Top 25 Small Distributors.

For reprint information, contact Katie Pyziak at (708) 390-2236.

1. Thomas Industrial Products Co., Inc.
2. Atwood Industries, Inc.
3. Major Tool Co.
4. Kamman Supply Co.
5. David F. Moore & Assoc.
6. M.D. Larkin Co.
7. Robnet, Inc.
8. Misco, Inc.
9. Contractor-Industrial Supply
10. Engineered Fluid Power Services, Inc.
11. Aztech Controls Corp.
12. DeLeon-Thompson
13. Recovery P.T. & Hydraulics
14. The Youngstown Rubber Products Co.
15. Sheats Supply Services, Inc.
16. Novelty Machine & Supply Co.
17. Frank Murken Products, Inc.
18. Welles Supply Co.
19. Rush More Industrial Supply Co.
20. DeLuca Valve & Instrument Co.
21. Indiana Fluid Power
22. Mid-South Tool Supply Co.
23. Dudley C. Jackson, Inc.
24. Arcadia Supply Inc.
25. Sealing Technology Co

1 Thomas Industrial Products Co., Inc.

Owings Mills, Md.
Robert A. Lyons, President
1990 Sales: $3.53 million+ **Employees:** 16
Average No. of Inventory Turns: 5.26
(See profile pg.32)

2 Atwood Industries, Inc.

Cleveland, Ohio
Ronald A. Meisinger, President
1990 Sales: $4.3 million **Employees:** 15
Average No. of Inventory Turns: 6
Thanks to a six-page, monthly newsletter, in-plant seminars, and other highly specialized services, Atwood Industries, Inc. possesses a striking corporate identity. And, according to Ronald Meisinger, that's the idea. After 20 years of selling specialty tooling and cutting tools to the automotive, aerospace and job shop markets, Atwood wants to be synonymous with its lines. And it is. "When our customers think of the product, they think of us—and they come to us," Meisinger says.

3 Major Tool Co.

Knoxville, Tenn.
Avi Major Ford, President
1990 Sales: $2.7 million **Employees:** 8
Average No. of Inventory Turns: 9
"The way we see it, the industry is being split into two groups: Big catalog houses and specialty companies," says Brad Nicum, Major Tool Co.'s operations manager. Thriving within the specialty niche has been the company's goal since its founding in 1982 as a specialty cutting tool and abrasives house. And serving the automotive, defense and aerospace industries, Major's doing just that. The firm does ground-up tooling applications—from engineering and manufacturing to stocking.

4 Kamman Supply Co.

St. Clair Shores, Mich.
Bill Kamman, President
1990 Sales: $2.25 million **Employees:** 7
Average No. of Inventory Turns: 8
When Bill Kamman's father, Otto, started Kamman Supply Co. in 1943, he did so with only $39 in his pocket. Today, the specialty cutting tool and abrasives house boasts more than 400 active customers in the tool and die and mold shops in the greater Detroit area. Kamman's secret for success? "We are a diligent, honest business, and we've spent all these years building and preserving our name and reputation," says Kamman. Performance doesn't hurt either. The firm reports an average of eight inventory turns.

5 David F. Moore & Assoc.

Chattanooga, Tenn.
David F. Moore, President
1990 Sales: $4.9 million **Employees:** 15
Average No. of Inventory Turns: 7
Top notch salespeople and quality lines are the fuel that drives David F. Moore & Assoc. to be one of the strongest small distributors in Tennessee. Founded in 1969, the firm specializes in industrial pumps, valves and instrumentation. Major markets include the chemical process, electric power and pulp and paper industries. Notes Moore, "We're really proud of our partnering arrangements with DuPont and BASF and our continuous improvement program."

6 M.D. Larkin Co.

Dayton, Ohio
R.L. Brickley, President
1990 Sales: $2.4 million **Employees:** 7
Average No. of Inventory Turns: 9.3
M.D. Larkin has been owned and managed by the same family since it was founded in 1905. According to Brickley, nearly 80% of the cutting tool and abrasives distributor's business is either automotive or automotive related. Brickley says that the company's real strength is the technical expertise of its inside and outside salespeople. "We stress training here," he says. "In fact, a year doesn't go by that our salespeople don't attend at least one factory-sponsored training seminar."

7 Robnet, Inc.

Baltimore, Md.
Elizabeth Edelstein, President
1990 Sales: $850,000 **Employees:** 6
Average No. of Inventory Turns: 8
Founded in 1985 as an industrial supply house, Elizabeth and Robert Edelstein have redirected their company into one of the most successful fastener houses in the region. The duo's formula? Strong customer service and competitive prices. According to Robert Edelstein, he and his wife are a perfect business pair. "My strengths are sales and product knowledge. Her strong point is marketing," he says. The company sells primarily to the food services industry and industrial contractors.

Meet #1

Thomas Industrial Products Co. in Owings Mills, Md., crests ID's list of the Top 25 Small Distributors.

In only nine short years, Thomas Industrial Products Co., Inc., formerly George P. Thomas Rubber Co., has more than quadrupled its size.

In a recessionary economy when others have folded due to severely leveraged assets, Thomas Industrial is striving for expansion through acquisition and/or branching.

In a region that's fragmented by aggressive competition, Thomas Industrial is doing more than just holding its own—the hose and accessories distributor is swiftly chipping away at market share.

As a certified coupler for aircraft refueling hose, liquid petroleum gas hose, and radiation waste transfer hose, among others, Thomas Industrial is a highly skilled and respected distributor in the eyes of both its suppliers and its customers.

Tucked away in an unsuspecting office park in Owings Mills, Md., Thomas Industrial Products has emerged as an innovative leader among small distributors in the industry. Indeed, that is why the century-old distributorship, headed by president, Bob Lyons, is ID's top small distributor.

Inside Thomas Industrial Products

"Small distributor" is an interesting term to use when describing Thomas Industrial Products Co. For, while the term does accurately depict the sales category most suitable to Thomas, "small" hardly characterizes the magnitude of the operation.

To qualify this statement, a bit of history is in order. Thomas Industrial Products Co. began more than 100 years ago as George P. Thomas Rubber Co. Originally located in downtown Baltimore, the company received a new-blood boost when Bob Lyons bought it in 1982. With 17 years experience in the rubber products business—both in manufacturing and distribution—Lyons left the security of his corporate position to buy the $850,000 company in what was then a recessionary economy.

Changing the name to Thomas Industrial Products, says Lyons, was a calculated strategy. "We maintained the "Thomas" part of the name because of the long-standing reputation and name recognition that the company had built up over the years," he explains. "But, by adding "Industrial Products" to the name, we were also aiming to make ourselves identifiable with a broader line of products."

Today, Thomas carries everything from belts and hose to valves and protective clothing. "We're not a general liner," says Lyons, "but we do try to be a full-service house." Servicing steel and shipbuilding accounts, municipalities, as well as the food processing and nuclear power industries, Thomas Industrial is doing just that. And Dick Combs, projects specialist purchasing, at Eastern Stainless Steel in Baltimore attests to it. "In its field, Thomas Industrial has a lot of competition," he says. "But, I consider Thomas my prime source of supply. The firm is competitive and service-oriented in areas of value, not just price."

From stock to service

Maintaining ample stock of products in its 20,000 sq ft warehouse is one key component of the relationship Thomas has developed with its customers. However, while Lyons stresses the importance of "not selling out of an empty wagon," he also underscores the significance of carrying the partnership several steps further.

Quality service is just one of those ways. And, as former president of the National Assn. of Hose & Accessories Distributors (NAHAD), Lyons is a firm believer in the management philosophy. "We have to supply our products on time and without error. Our customers demand it," Lyons says. Accordingly, Thomas guarantees same day shipment if the item is ordered by 3:00 p.m. and also boasts a high fill-rate of 98.5% on the average.

Lyons is quick to attribute this performance to his employees. "It's the group that makes it happen," he says. "They are here from 7:30 in the morning until 6:30 at night, and they often come in on Saturday. I

Meet Thomas Industrial Products Company's #1 staff. Comprised of several dedicated family members and long-standing employees, the group has helped to make this small hose and accessories distributor a great distributor.

provide the support, but they do the work."

If the level of turnover and employee tenure is any indication of the job satisfaction rate at Thomas Industrial, Lyons is not exaggerating. Several employees still remain from the former ownership, including the vice-president, sales, G. Lawrence Watts, Jr., who has been with Thomas since 1965, and 15-year veteran Tom Noell, an outside salesman. How do they like working at Thomas? "It's a hectic atmosphere because we're so busy," says Noell. "But we try to have fun at the same time. I love it."

Family fun

The Lyons family loves it too. Fulfilling individual responsibilities under the Thomas Industrial roof are Lyons' wife, Jane, his son, Rob and his daughter, Terri David. Jane, who is vice-president, finance, for Thomas Industrial has been in the industry almost as long as Bob.

While family involvement is a unique aspect of Thomas Industrial, it's not one that Bob Lyons counted on for the business. "We were actually quite surprised when the kids wanted to join the company," he says. But, having decided to join—Terri as an administrative assistant and Rob in outside sales—the second generation is working its way up like the rest of the employees. "Rob started out in the warehouse where he worked for two years at a warehouse salary," explains Jane. And Jane is quick to point out, too, that she is an employee just like the rest. "Bob runs the company," she says.

Adding value

Running the company has become more and more of a challenge lately, according to Lyons. The recession, the high cost of doing business, and stiff competition in the greater Baltimore area are just a few of the reasons why. "Baltimore is highly fragmented, and the competition has grown dramatically in recent years," he says.

But, that just gives Lyons and his employees more motivation to fight. "The key is to become a strong regional supplier and decrease the number of players in order to make the market more lucrative for a few," he asserts. "And that means keeping the outside players out as well."

Value-added service is his secret weapon against competitors in the Delaware, Maryland, Washington, D.C. & Northern Virginia region. Providing application assistance and technical engineering, product testing, as well as custom crimping, coupling and cutting are all in a day's work for the Thomas Industrial staff. In fact, Lyons notes that 50% of the company's business is value added.

Value added is a major focus at Thomas Industrial and it shows. The company is a certified coupler for aircraft refueling hose, liquid petroleum gas hose, anhydrous ammonia hose, as well as many other types of hose. In order to earn these certification privileges, the firm underwent a stringent examination process, and select Thomas employees were carefully trained. Today, Thomas is one of the few companies in the area that performs these services. "A lot of companies won't even touch these markets because of the liability involved," explains Lyons.

According to W.A. "Doc' Whitehurst, vice president of distributor sales for Dayco Products, Inc. in Dayton, Ohio, Thomas Industrial's flair for dealing with such accounts is one of its strongest qualities. "Thomas has a knack for seeking out the business it can handle and then servicing it beautifully," he says. Being Thomas' stellar line, Dayco clearly benefits from the firm's steady and strong performance among end users. And Whitehurst is quick to commend. He says, "Bob Lyons and his staff have done a fantastic job of representing Dayco in the marketplace."

Thomas Industrial's willingness to navigate along uncharted waters; its pursuit of growth in a down economy; and the integrity it has maintained throughout, thanks to an outstanding leader and a staff of professionals, puts Thomas Industrial Products Co. at the top of our list. Join us in congratulating them.

TOP 25

8 Misco, Inc.
Boise, Idaho
Bob Harder, President
1990 Sales: $2.8 million **Employees:** 10
Average No. of Inventory Turns: 15
Service and the expertise of its salespeople are what makes Misco, Inc. a first rate company. In fact, a company spokesman notes, "Out of the firm's four outside salespeople, the least experienced salesperson of the group has 15 years on the road." Founded in 1983 by Harder, Misco specializes in compressors, pumps and valves. Primary markets include the mining, forest products and electronics industry.

9 Contractor-Industrial Supply
Northbrook, Ill.
Arnold Moschin, President
1990 Sales: $4 million+ **Employees:** 16
Average No. of Inventory Turns: 4.5
Contractor-Industrial Supply (CIS) is not your typical STAFDA house. When the firm was founded in 1976, it was named Harold's Industrial Supply after Moschin's father. But construction-related business proved strong that first year and Moschin decided that CIS was a more accurate reflection of the company's customer mix. Today, 50% of CIS' business is construction, while the other 50% is derived from sales to industry. Moschin says, "Our strength is our broad product offering. Our customers have 22,000 line items to choose from."

10 Engineered Fluid Power Services, Inc.
Houston, Tex.
Garland Sparks, President & CEO
1990 Sales: $800,000 **Employees:** 6
Average No. of Inventory Turns: 10
Engineered Fluid Power Services, Inc. sells fluid power and pneumatic equipment in the Dallas, Ft. Worth and Houston markets. While the specialty company is relatively young—having been established in May 1990—it currently has 400 active customers and an active EDI network. But don't let Engineered Fluid Power's youth fool you: The firm's six employees have a wealth of experience among them. Says Sparks, "We all have 25 to 30 years of experience in product application. That's what sets us apart from our competition."

11 Aztech Controls Corp.
Phoenix, Ariz.
Pat Frazier, President
1990 Sales: $4.75 million **Employees:** 18
Average No. of Inventory Turns: 5.2
Specialty pipe, valve and fitting house, Aztech Controls Corp., seeks out the kinds of products that most others shy away from. "We look for expensive, engineered applications with long lead times," Frazier admits. Why? Clearly because it allows the firm to carve its own niche with the semiconductor, power, and mining industries it services. And, after only five years in business, Aztech has done just that. "100% of our business is value added," says Frazier.

12 DeLeon-Thompson
Moline, Ill.
Robert J. Thompson, President
1990 Sales: $3 million **Employees:** 10
Average No. of Inventory Turns: 4.61
When DeLeon-Thompson became a stocking distributorship in 1981, the company ambitiously shot at a specialized market segment. Targeting agricultural and off-road construction equipment manufacturers and the auto aftermarket, the company sells cutting tools and fluids as well as filtration and coolant recycling systems. Although highly specialized, DeLeon-Thompson is plagued by stiff competition in Iowa and Illinois, its selling area. But Thompson's not worried. "A lot of people do the same thing we do—we just do it better," he says.

13 Recovery P.T. & Hydraulics, Inc.
Bloomington, Cal.
Steve H. Hammersmith, President & CEO
1990 Sales: $1.1 million **Employees:** 8
Average No. of Inventory Turns: 6.3
Founded in November 1988, this West Coast combination distributor has seen its sales skyrocket 184% from 1989 to 1990. Major markets served by the company include the roofing industry, food plants, and repair and construction equipment. Covering the L.A. Basin, Recovery P.T. mainly sells hydraulics and power transmission products to its 425 active customers. The distributor also offers customers a complete repair shop and a 1,000 sq ft. self-service retail store. Says Hammersmith: "We make it easy for the small independent plants to buy."

14 The Youngstown Rubber Products Co.
Youngstown, Ohio
F. Stanley Wittenauer, President
1990 Sales: $2.9 million **Employees:** 15
Average No. of Inventory Turns: 6
Ask Joe Calcagni, Youngstown Rubber Products Co.'s assistant treasurer, what the distributor's major strength is and the answer is unequivocal: Product knowledge and inventory level. "We know what we're selling, and we make sure that it's the stuff that's here," he says. If 72-year-old Youngstown Rubber's inventory turn record is any indication, Calcagni is right on target. The specialty rubber products and hydraulics firm stocks 5,000 line items for its steel, auto and small manufacturing customers and turns them 6 times.

15 Sheats Supply Services, Inc.
Indianapolis, Ind.
Nancy Sheats, CEO
1990 Sales: $4.1 million **Employees:** 18
Average No. of Inventory Turns: 4.25
"There's absolutely no doubt in my mind that our service excellence program is what sets us apart," says Jeff Sheats, vice president of Sheats Supply. And, judging from the premises of the plan—guaranteed perfect order or your money back and substantial employee bonuses tied to customer performance—it's no wonder. The specialty cutting tool firm's 25-year commitment to quality service puts Sheats high on the list for its diverse customer base of automotive, defense and utilities, and aviation markets.

16 Novelty Machine & Supply Co.
Mason City, Iowa
John A. Olson, President & CEO
1990 Sales: $3.9 million **Employees:** 20
Average No. of Inventory Turns: 5.5
Established in 1876, Novelty Machine & Supply Co. is a family business that supplies general line products, including power transmission, industrial plumbing and materials handling products. The food processing industry, feed and grain, and municipalities are the distributor's primary markets. Within those markets, Olson says, several key strengths set Novelty apart from its competition. "Our machine shop/service facility, our recognized engineering services and product knowledge, as well as the quality of our vendors are exceptional," he notes.

Meet #25

Bottom of the barrel it is not! ID's # 25 distributor, Sealing Technology Co., has a niche all its own.

In searching our readership for the Top 25 Small Distributors, we had the pleasure of learning about many new companies. In most cases, these firms were small distributorships with unique niches.

Without question, the company with the most unique niche is Sealing Technology Co., our #25 distributor.

Ask Sealing Technology's president, David Williams, what his firm's niche is and he'll say: "If it rotates or reciprocates, we probably seal it." That description encompasses mechanical seals and packing, hydraulic/pneumatic seals, centrifugal pumps, and specialty technical products.

To further specialize, 95% of Sealing Technology's product line consist of one manufacturer—A.W. Chesterton Co. in Stoneham, Mass. "They are the Cadillac of the line," says Williams. "By selling the best quality it's easy to show customers their total operating costs are reduced."

True value

Sealing Technology carries the A.W. Chesterton line with a high degree of specialization. And the Twinsburg, Ohio-based distributor also sells the product with an extreme degree of specialization. "Value added is a major part of our business," notes Williams.

It has to be. According to Williams, the sealing product segment is unusual in that when his salesmen sell the product, they are selling the performance enhancements that go along with it. Accordingly, strong product knowledge and engineering expertise is paramount. For example, a pump that functions with a mechanical seal or mechanical packing will operate more efficiently with a seal. "Our salesmen present the seal and sell the fact that the pump operates with one-sixth the amount of energy that would normally be required to operate it with packing," Williams explains. "It goes far beyond the cost of ownership or acquisition."

Due to the nature of the products, Sealing Technology salespeople work at all levels on the customer side. "Oftentimes, they present to production, maintenance, quality or energy departments along with corporate purchasing," Williams notes.

This is particularly useful when they perform still more value-added services—this time engineering functions. According to Williams, Sealing Technology salespeople are trained to change face configurations and install seals, as well as to assemble the pumps they sell. "Some general liners sell the same products we do, but they don't do it as a specialty. We do it better, because we can spend time showing customers how to extend the time between downtime intervals," contends Williams.

True quality

Selling with specialization is one thing—selling with quality is another. Sealing Technology does both. Although the company does not have a formalized quality program in place, Williams notes that the premises of the quality movement are actively pursued at Sealing Technology. Error tracking and reduction being one component—the company's record speaks for itself. "Last year we issued credits on one-half of 1% of total invoices," Williams recounts. "That includes our own errors and those our customers might have made themselves."

Sealing Technology also practices the people side of quality management. Williams stresses that his staff, "the company's driving force," acts autonomously and is empowered to make many of its own decisions. "We nurture our salespeople to think of themselves as independent business people."

Everything from EDI, which Sealing Technology introduced in the first part of 1991, to its strong partnering commitment with A.W. Chesterton has contributed to this small company's success. Peter Lowry, vice president of national sales for the Stoneham, Mass.-based manufacturer couldn't agree more. "Sealing Technology is considered one of our better managed, more successful distributors," he says. "They are 110% dedicated to customer service."

Sealing Technology's management feels strongly that the company's status as a small distributor also plays a significant role in that prosperity. "I love being a small distributor," Williams says. "I can maintain control and become very involved at the same time." Williams talks to as many as 12 customers per day by picking up the inside sales lines when they ring. He says it helps him "stay in touch with reality."

With sales of $2.25 million and growing, Williams and his 11-year-old specialty firm seem to be in touch with reality and more. ID

TOP 25

Frank Murken Products, Inc.
Schenectady, N.Y.
Joseph Murray, President
1990 Sales: $2.68 million **Employees:** 13
Average No. of Inventory Turns: 4.2
"We are a small, but growing distributor," says Murray of Frank Murken Products, the general-line house he bought in 1986. A strong quality focus gleaned from Murray's stint with General Electric, as well as a strong EDI network and a finite emphasis on value-added service is making that growth happen. Partnering and contract agreements with customers in the chemical and paper industries are the natural outgrowth of the company's progressive approach. "We truly believe in partnering," relates Murray. "We are not one-night-stand types."

18 Welles Supply Co.
Elmira Heights, N.Y.
William Elias, President
1990 Sales: $4 million **Employees:** 18
Average No. of Inventory Turns: 9.1
This general-line supplier services 450 active customers in the southern tier of New York and the northern tier of Pennsylvania. Established by the former owner in 1951, Elias purchased Welles Supply Co. in 1986. The company is currently in the process of implementing EDI and a quality program. But Welles also brings a personal touch to its customer service. "We like to feel the customers can depend on us to help solve their problems," says Elias. "Flexibility is the key word. We are flexible with our customers."

19 Rush More Industrial Supply Co.
Elk Grove Village, Ill.
John Annes, President & CEO
1990 Sales: $1 million **Employees:** 5
Average No. of Inventory Turns: 5
Rush More Industrial Supply Co. currently covers a customer base of 350 within a 75-mile radius of Chicago. With 25% of the general liner's business being value added, customer service is an important component of the company's success. In marketing primarily cutting tools, Rush More prides itself on "keeping delivery promises." Says Annes, "We'll deliver on the same day without a minimum order." Annes founded the business in 1986 after building another distribution business for 35 years.

20 DeLuca Valve & Instrument Co.
Columbia, S.C.
Joe Cheatham, General Manager
1990 Sales: $2.9 million **Employees:** 14
Average No. of Inventory Turns: 3.5
25-year-old DeLuca Valve & Instrument Co. supplies pressure relief valves, pressure and temperature instrumentation, and valve repair to its customer base of 600. The specialty distributor's major markets include pulp and paper, power generation, and various other industrial customers. Cheatham points to DeLuca's technical expertise and flexibility as its strengths. "We're focused on quality products and services and we keep a low overhead," says Cheatham. "We try to be a modern distributor with a specialized market."

21 Indiana Fluid Power
Fort Wayne, Ind.
Richard Hess, President & CEO
1990 Sales: $2.7 million **Employees:** 10
Average No. of Inventory Turns: 4.2
Established in 1976, Indiana Fluid Power focuses on hydraulic and pneumatics product lines. The specialty company targets the electrical, automotive and farming industries in the northern third portion of Indiana. With a customer base of 425 and with 30% of its business being value added, the company prides itself on the service it offers customers. "We take the time to convert items for our customers. It's never a question of having a product for a customer or not having it," says Hess. "I don't think a lot of distributors our size offer this."

Mid-South Tool Supply
Memphis, Tenn.
Bobby J. Edwards, President & CEO
1990 Sales: $1.2 million **Employees:** 6
Average No. of Inventory Turns: 7.2
Mid-South Tool Supply Co. marked a 16% increase in sales in 1990 compared to 1989. Such healthy growth came primarily from the power plant and aviation industry—included in the company's active customer base of 285. The six-year-old general liner's product lines include tools and safety equipment. But what sets Mid-South apart from its competitors? "Service—which means more than just having what a customer needs," says Edwards. "It also means billing according to specific customer requirements or finding non-traditional items that a customer needs."

23 Dudley C. Jackson, Inc.
Helena, Ala.
Kenneth L. Jackson, President & CEO
1990 Sales: $4.3 million **Employees:** 25
Average No. of Inventory Turns: 6
A finalist for the 1990 Alabama Senate Productivity Award, Dudley C. Jackson reduced its work force by six employees over the last three years while simultaneously increasing sales from $3.7 million to $4.3 million. The specialty distributor's forte is designing custom finishing systems, such as pumping and paint spraying equipment and centralized lubrication systems. The family business was founded in 1949. "We have enthusiastic employees who constantly strive to SEE," says Jackson, referring to the company's in-house quality program—See Excellence Everywhere.

Arcadia Supply, Inc.
Albany, N.Y.
James Sumner, President & CEO
1990 Sales: $3.6 million **Employees:** 15
Average No. of Inventory Turns: 5
Established in 1969, Arcadia Supply, Inc. concentrates on metal and metal cutting tools within a 100-mile radius of Albany. The combination house's 350 active customers are surveyed regularly on their level of satisfaction by the distributor's sales force. "We base our business on small orders, excellent delivery, and a knowledgeable sales staff," notes Sumner. "We will do anything to give our customers what they want. We'll even take overnight trips to pick up materials for them."

Sealing Technology Co.
Twinsburg, Ohio
David Williams, President
1990 Sales: $2.25 million **Employees:** 12
Average no. of Inventory Turns: 3.44
(See profile pg. 35)

A market you can't avoid

While it's true that state, local and federal budgets are tighter than ever, some distributors report that sales to government and institutions saved their businesses last year.

By Steve Zurier, Senior Editor

Think you've tapped all your available markets? One segment you shouldn't overlook in these recessionary times is the government and institutions market.

Why? Because municipalities, state government, hospitals, and utilities are some of the most visible potential customers available. Purchases by state and local government alone totalled an estimated $702 billion last year (see illustration). Factor in the billions more spent each year by the federal government, and you're talking about a potential market for your products that's impossible to avoid.

Some distributors have noticed. For example:

- Robert Munson, president of Phillips/Day & Maddock in Cleveland, Ohio, says that government spending on repairs to roads and bridges helped his company offset the dramatic drop in commercial construction last year. Munson looks for local utilities to spend money on plant updates and environmentally-related projects in 1992.
- State and local government contracts account for nearly 40% of total sales at Everett J. Prescott, Inc. in Gardiner, Maine. Company president Peter E. Prescott expects municipalities throughout New England to replace water meters and install backflow programs throughout 1992 and 1993.
- Government and institutional sales account for at least 20% of total business at Carey Machinery & Supply Co. in Baltimore, Md. G. Cheston Carey, the company's president, expects Carey Machinery to maintain that level in 1992 despite tremendous pressures on state, local and federal budgets.

Pros and cons

These three industrial distributors are not the only people pointing out opportunities for the upcoming year. Dag Ryen, Editor of *State Government News*, says that even though 29 states cut spending by a total of $7.5 billion last year, certain projects must move ahead.

Ryen says that most states plan to spend money on infrastructure in 1992, a problem he says will cost federal, state and local governments in excess of $3 trillion in the years ahead. He also estimates that spending on corrections will increase by at least 8% nationwide. "Most states have come to the point where they have no other choice but to do something about their overcrowded correctional facilities," he says.

But despite these windows of opportunity, some distributors told ID that they shy away from institutional sales. A few said that with more in-

State & local's potential

(estimated purchases of goods and services for 1991)

100% = $702 billion

John Roman

dustrial end users emphasizing total cost over lowest price, they prefer to concentrate on cementing partnerships with major customers. These distributors view the endless bidding involved in government work as a waste of time.

This may explain why in the past five years, the institutional market dipped from being the number one market segment for Industrial Distribution Assn. (I.D.A.) members, to the 11th. But as I.D.A.'s executive vice president Gary Buffington points out, the institutional market, which includes government, hospitals and utilities, is still a leading market for I.D.A. members and other distributors.

"Relative to markets like metals fabrication, chemicals, automotive, and aerospace, distributor sales to the institutional market are down," notes Buffington. But any way you look at it, the institutional market is still an important segment for our members."

Sales tips

If you're going to consider tapping the government and institutional market, take some tips from the experts. Since the company was founded in 1955, Everett J. Prescott, has developed a reputation as one of the most thorough distributors of water, sewer and drain equipment in New England.

According to Peter Prescott, salespeople interested in selling to government must understand that nothing happens until an engineer writes a specification. Therefore, he says, salespeople should get to know the town engineers, as well as the leading engineering firms in their territories.

"The only way to beat the bidding process is to get your product specified up-front by an engineer," he says. "As a salesperson, if you find yourself at the mercy of government bids, you'll never last. The reality of our business is that it can take 10 or 15 years to make a sale. It's very political, and requires that you get to know all the key players in the municipality."

Not only is it political, it takes a salesperson with unlimited patience. According to G. Cheston Carey, institutional sales is a specialty unto itself. He says it requires a salesperson who:

- **Has the patience to ferret out the different buying influences in a bureaucracy.** For example, Carey says there are at least 50 different labs at the Nat'l. Institute of Health, each one with separate plant engineers and maintenance people.
- **Understands the paperwork flow.** Carey says salespeople must be able to weed their way through the myriad rules and regulations.
- **Possesses superior product knowledge.** According to Carey, government specifiers depend on distributors and other vendors to keep them abreast of new technology and to recommend available products and services.
- **Has well-developed time management skills.** Carey says that if a salesperson's not careful, he can waste valuable selling time calling on the wrong people.

But while Carey stresses a methodical approach, Phillips/Day & Maddock's Munson says that in some cases, the beauty of selling to institutions is that there's little or no indirect sales cost.

"In Cleveland, anybody who's interested can go down to city hall and pick up a copy of the projects being bid," Munson says. "Even though the low bidder wins in most situations, government projects are profitable enough that they help cover my fixed costs. Remember, there's no phone sales cost, and the salesman's time is limited as well."

Ultimately, it's up to each individual distributor to decide if it makes good business sense to target the institutional market. Not every market has the potential of a Baltimore/Washington. And Everett J. Prescott's work is very specialized. But with the recession lingering, the government and institutional market just may be the lifeboat you've been looking for. ID

Purchasing's work flow

The following is an example of a typical work cycle at a government purchasing office.

- User department recognizes a need to purchase, prepares an in-house requisition, and forwards to purchasing department.
- Purchasing reviews the requisitions for accuracy and completeness. If incomplete, it returns all copies back to user department, noting information needed.
- Purchasing checks surplus property to see if there are any excess items which meet the requirements.
- If none are available in surplus property, and if the requisition is complete, purchasing checks to see if funds are available. If not available/budgeted, all copies are returned to the user department.
- If funds are available and specifications are clear and fair (non-restrictive), purchasing determines the proper purchasing method, i.e., whether telephone quotes are appropriate, or if competitive sealed proposals are necessary, etc.
- If bids are not required, as in small purchases or otherwise exempt by statute, price quotations are obtained either by central purchasing or user departments, and a purchase order is prepared.
- If bids are required, invitations for bids or proposals are prepared, requesting written bids or offers by a specified date.
- Bids are received and tabulated, and the lowest responsive and responsible bid is selected.
- Purchasing prepares purchase order, sends original to vendor, one to accounting, and one to the receiving point if different from user department.
- Vendor receives order, and submits invoice.
- User department inspects delivered products to see if specifications are met. If not met, the vendor is contacted and advised to comply with purchase order, or products are sent back to vendor.
- If specifications are met and the bid is otherwise responsive, a receiving report (proof of receipt) is prepared by the appropriate government employee and sent to purchasing.
- Purchasing verifies that receiving report and purchase order match up.
- Accounting verifies purchase order, invoice and receiving report to see that all three documents match, and pays vendor.

Source: Nat'l. Institute of Governmental Purchasing

Cutting tools '92: a replay of '91

More of the same. That's what insiders project for cutting tool sales this year.

By George Berkwitt, Editor-at-Large

Distributors and manufacturers, both, expect a less-than-encouraging 1992 in the cutting tool arena. What's needed to survive? Even more conventional services such as timely deliveries, smooth order processing and highly trained salespeople head the list. Also, because the quality of domestic product is a given, sellers must focus even harder on a wider range of services.

And, as it heads into what looks to be just an o.k. year, the industry is ambivalent on the role price will play in '92 cutting tool sales.

On the other hand, professional forecasters are cautiously optimistic. One respected source, which has yet to announce its final conclusions, had forecast a 22% decline in domestic consumption of cutting tools the first three-quarters of '91, but saw an upswing in the final quarter. It estimates sales for all of '91 at $2.9 billion, a drop from '90's $3.5 billion. Sales in '92, this source says, should top $3.19 billion, led by a 10% pickup late in the first quarter, then topping $3.6 billion in '93.

Even more optimistically, and based on cutting tool manufacturers' billings through June, 1991, industry and trade association sales forecaster John DeWolfe projects a 6% increase for '91, 13% in '92 and 15% in '93.

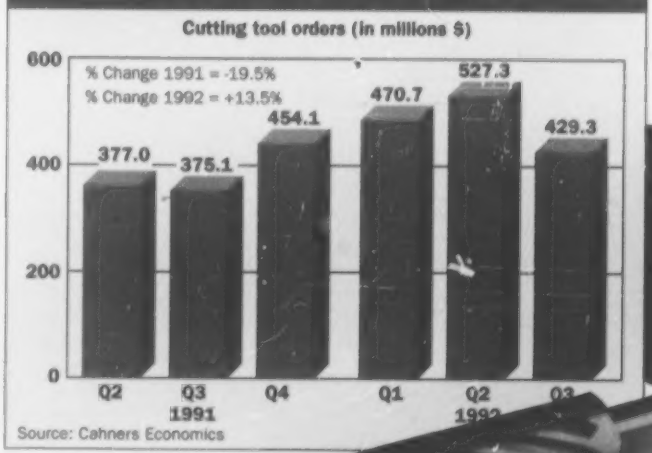
Orders for machine tools for cutting (as opposed to forming) constitute an index of cutting tool sales one or two years in advance, the normal lead times between orders and shipments. Cahners' Economics forecast, issued in September, predicts that, for the quarter ending in January, '93, cutting machine sales will log a hefty 15.4% increase over year earlier levels. An estimated 19.5% decline in 1991 will be followed by a 13.4% increase in '92 and a flat '93.

Among the most noteworthy forecasts is that of the National Tooling & Machining Assn. (NTMA) representing 3,100 contract machining, tooling, die, mold, and machining companies which annually buy more off-the-shelf cutting tools and related items from distributors than do most large-volume users.

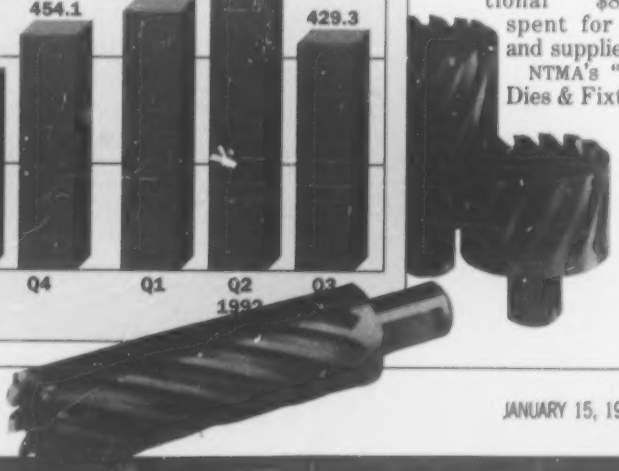
Domestically, the industry averages $25 billion in sales annually. Last year median purchases by individual NTMA members were $590,000 with an additional $84,000 spent for tools and supplies.

NTMA's "Tools, Dies & Fixtures"

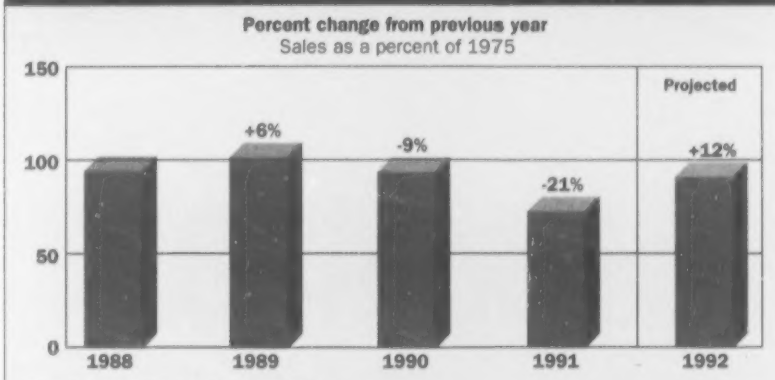
CUTTING TOOL ORDERS



Source: Cahners Economics

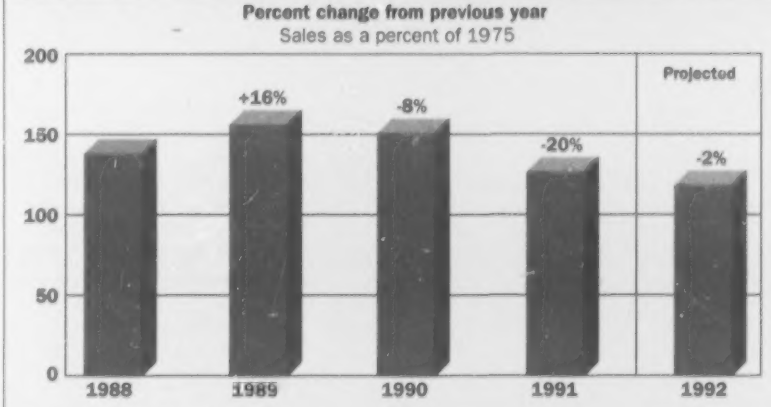


TOOLS, DIES, AND FIXTURES



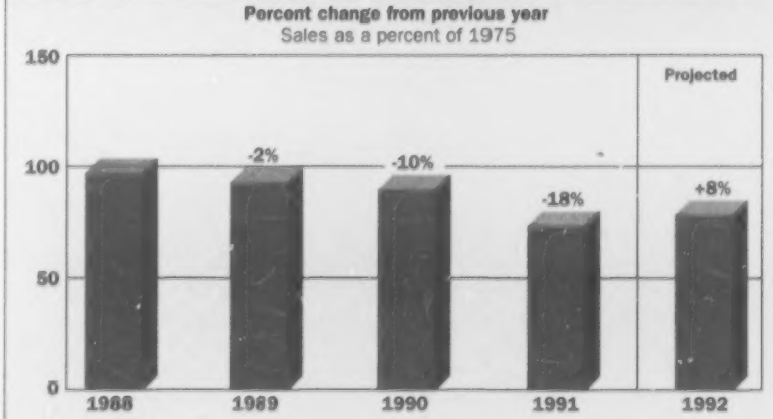
Source: Nat'l. Tooling & Machining Assn.

AEROSPACE MACHINING AND FABRICATION



Source: Nat'l. Tooling & Machining Assn.

PRECISION MACHINING (EXCL AEROSPACE)



Source: Nat'l. Tooling & Machining Assn.

figures, adjusted for inflation, show a 6% rise in '89 and a 9% decline in '90, followed by a whopping 21% decline last year, with a 12% comeback in '92 expected to reflect increasing sales to the major industries.

In October, Cahners' *Early Warning Forecast* proclaimed "Things are looking good for manufacturing." It predicted that the growth that troughed the third quarter of last year will trend upward and peak in early 1993. Higher capital spending in the non-durable sector through the first quarter of '92 should influence cutting tool and MRO purchases in general. With inventories declining and demand picking up, orders must rise, the forecast concluded.

The vendors' view

Cutting tool makers show little joy over this year's prospects. Raymond E. Putnam, president, Brubaker Tool Corp., sees "no encouraging news that customers will increase purchases of expendable tooling." He predicts that sales will remain stable at '91's low levels. Don Rooke, vice president marketing and sales, American Saw & Mfg. Co., sees light only by the third quarter. He attributes such hope to small scale recovery and an election year.

Paul Jaques, sales and marketing manager, Guhring, Inc., predicts a 5% upturn no sooner than the fourth quarter. Jaques sees "marginal" growth led by automotive-related industries and commercial aircraft manufacturers and contractors.

Growth of the cutting tool market could come from a number of directions. Citing low inventories throughout industry and on distributors' shelves, James A. Deeds, president, Besly Products Corp., sees replenishment and demand increasing for the disposable cutting tool.

Both suppliers and distributors see competing for a larger market share as the key in a flat economy. Sandvik Saws & Tools Co., for one, is moving aggressively to enhance its presence mainly in the new construction and housing markets.

The company steadfastly continues to spend an impressive 4% of sales on R&D. "The outlook may not be encouraging but the markets for cutting tools are still viable," contends James R. Riley, Sandvik vice president of sales and marketing. "You increase market share by aggressive programs to improve quality and service."

Cutting tools

Targeting specific markets can improve the outlook for 1992. Despite the apparent low state of consumer confidence, M.N. Ronan, vice president of sales, Diamond Saw Works, for one, recommends focusing on small to medium manufacturers attuned to consumer products.

Zeroing in on newer industries will help improve the vendor's outlook, says Barry L. Miller, vice president, administration, Cardinal Cutting Tools, Inc. He cites, as examples, medical manufacturing and environmental servicing and fabrication as two of a number of rapidly emerging industries.

The bottom line, warns Miller, is that with the quality of imported tooling steadily improving, "quality at a competitive price is a staple that more buyers will demand." Service will remain critical, he adds, as fewer users accept overstuffed tool and supply inventories.

Although exporting is relatively rare among American distributors, it looms large as a means of developing new markets in '92 and beyond. Trading conditions for some industries are favorable, notes Miller. He cites the trade agreements with Canada and Mexico, and "the tumultuous conditions of Europe." Wayne A. Widell, president, Widell Industries, Inc., agrees, adding "the dollar is still a bargain." Untapped markets need to be explored, says Widell. Cuba and the ex-Warsaw Pact countries are two such strong possibilities, he feels.

'The outlook may not be encouraging, but the markets for cutting tools are still viable.'—Riley

The imperatives

With machine tool and metalworking technology advancing as fast as computers in the industrial workplace, users will demand more technical expertise from their vendors. William Derville, president, General Tools & Supply Co., Portland, Ore., warns of a need for distributors and manufacturers to start developing state-of-the-art tooling specialists who will support the more generalized salesperson.

Manufacturers are already setting new priorities for competing, according to Guhring's Paul Jaques. He notes that the focus is currently on new tool technology and product introductions aimed at improving tool performance and reducing the cost of manufacturing the workpiece. He cites the General Motors Saturn plant's "lifetime" agreement with Metalcutting Tool Management to provide teams of experts who will monitor Saturn's tool cribs to optimize choices and performance of the customer's cutting tools and to maintain its cutting tool inventories (ID: October, 1991).

The pickup in cutting tool sales will be slow due to oversupply and general economic ennui, concludes James L. Packard, president of the 100-company-member U.S. Cutting Tool Institute. Packard, president and CEO of Regal Cutting Tool Div., feels that the current trend in consolidations will continue and create a better balance between domestic capacity and demand. ID

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► CIRCLE NO. 33

By Susan E. Farris

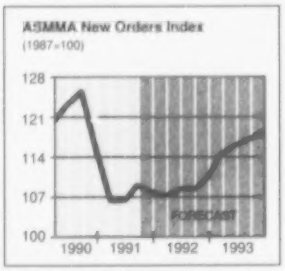
Moderate OEM and auto expansion

Expect an added boost from purchases that were deferred last year.

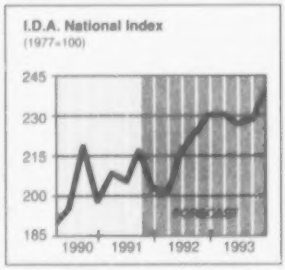
The fourth quarter of 1991 proved to be disappointing as many economic indicators stopped advancing and started flattening and declining. The I.D.A. index of national distributor sales plunged 10.4% in October, after three straight months of steady increases. Although the heavy machinery and auto markets saw growth slow down during the end of 1991, the outlook is moderately good for 1992. Purchases of durable goods and capital equipment are forecast to rise towards the middle of the year, once the economic expansion is underway.

U.S. automakers are facing a sluggish economy and weak demand for big ticket items from consumers. Auto sales in 1991 were uneven at best. Although '92 model introductions helped increase September to October sales by 5.6%, total '91 sales will fall 11.1% below 1990 levels. This translates to just 6.1 million units. The last time auto sales reached such lows was during the 1982 recession. Although the auto industry will continue to cutback its production schedule in 1992, sales are forecast to increase 2.4% over 1991 in light of improving consumer confidence. Once the recovery is fully underway in 1993, auto sales are expected to rise 3.4%.

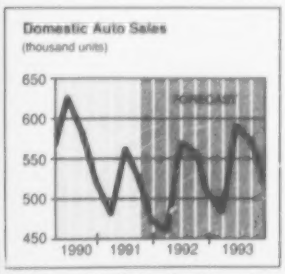
The original equipment machinery and components (OEM) industries are forecast to more than make up for last year's decline in output, rising 4.6% in 1992. After posting several months of considerable gains, output in all five sectors (fabricated metals, non-electrical and electrical machinery, transportation equipment and instruments) began leveling off towards the end of 1991. Nevertheless, by the middle of 1992, a strong injection of capital spending should provide the demand for the OEM sector. The electronics markets will be the strongest sector in 1992, with output forecast to rise 6.1%. Non-electrical machinery and fabricated metals will follow closely behind, expanding 5% and 4.8% in 1992. The transportation equipment and instruments categories will expand somewhat more slowly, but still gain more than 3% each in terms of output. Although the recovery started to stall out towards the end of 1991, the outlook is for a moderate recovery in both the heavy machinery and auto industries in 1992.



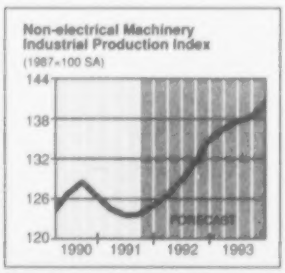
Data source: ASMMA
Forecast source: Cahners Economics



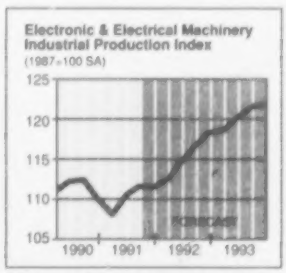
Data source: I.D.A.
Forecast source: Cahners Economics



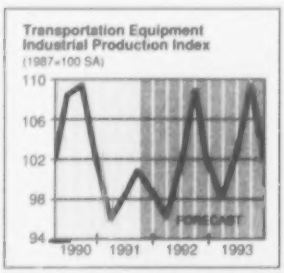
Data source: Motor Vehicles Manufacturers Assn
Forecast source: Cahners Economics



Data source: Federal Reserve Board
Forecast source: Cahners Economics



Data source: Federal Reserve Board
Forecast source: Cahners Economics



Data source: Federal Reserve Board
Forecast source: Cahners Economics

(1977=100)	SALES Oct. 1991	SALES Sep. 1991	SALES Oct. '91 vs Oct. '90 % change	RECEIVABLES Oct. 1991 days	INVENTORY Sep.-Oct. 1991 % change
TOTAL	197.6	220.5	-3.9	38.3	-1.4
EAST	186.4	184.6	+6.8	41.9	-1.1
SOUTH	318.8	390.5	+16.1	36.1	-1.8
CENTRAL	144.5	145.6	-20.0	39.6	-2.9
WEST	202.5	208.3	-2.0	34.0	+0.7

SOURCE: Industrial Distribution Assn.